1997-98 SESSION
COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance
(JC-Fi)

Sample:

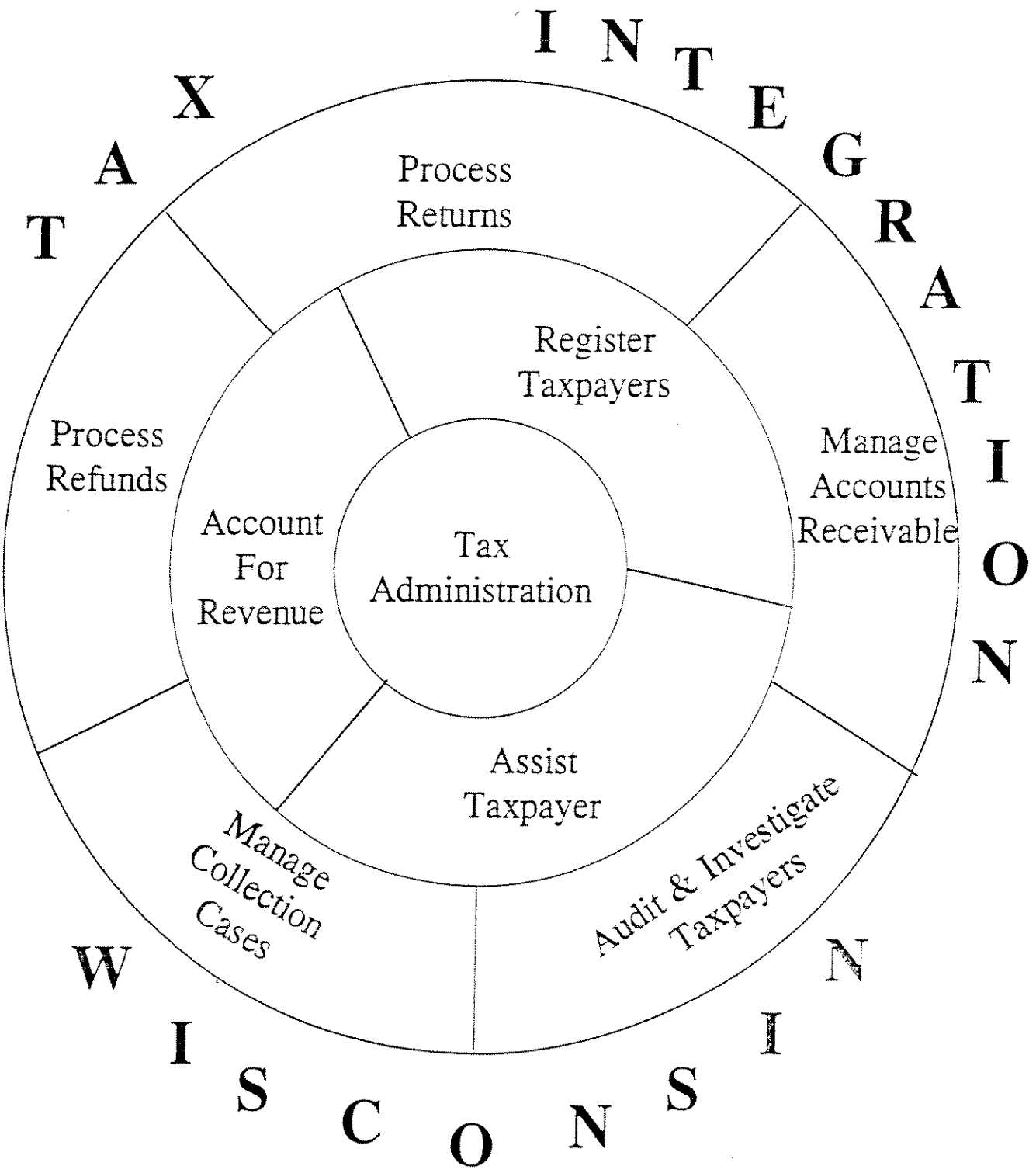
- Record of Comm. Proceedings
- 97hrAC-EdR_RCP_pt01a
- 97hrAC-EdR_RCP_pt01b
- 97hrAC-EdR_RCP_pt02

- *Appointments ... Appt*
- *Clearinghouse Rules ... CRule*
- *Committee Hearings ... CH*
- *Committee Reports ... CR*
- *Executive Sessions ... ES*
- *Hearing Records ... HR*
- *Miscellaneous ... Misc*
- *97hr_JC-Fi_Misc_June 1998_pt01*
- *Record of Comm. Proceedings ... RCP*

June 1998 13.10 requests

ATTACHMENT A

Wisconsin Department of Revenue
Tax Integration Action Plan



November 21, 1996

Wisconsin Department of Revenue
Tax Integration Action Plan
November 21, 1996

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Attachments

Tax Integration Action Plan

A. Description and Fact Finding

A.1 Background

Currently, the Wisconsin Department of Revenue (WDOR) has more than 130 application systems dedicated to tax and revenue administration. Many of these systems -- especially some of the major systems -- were built having similar functions. However, the systems do not share the same resources (e.g., data sources, computer programs, staff), although they often share the same customers. This type of "Silo" application development focused on tax programs has been occurring over the last 30 years at WDOR as well as other government agencies and in the private sector. Consequently, WDOR has a significant amount of data and application system redundancies, which has caused many subsequent problems. The following action plan focuses on addressing these redundancies and outlines several alternatives for change.

A.2 Silo Development

Traditionally, WDOR systems have been developed for the needs of a specific tax program (See Attachment A for relevant Tax Program Statistics). Systems often have duplicate functions involving registration, tax processing methods and computation, issuance of refunds and bills, management of estimated payments, audit case activity, and subsequent appeals. Although there were some advantages to building and maintaining program independence, the overall disadvantages now far outweigh the advantages. Urgent legislative initiatives require independent system development, in most cases. The introduction of exposition tax, stadium tax, and temporary surcharge are examples of initiatives that have generated recent silo system development.

Although each of these systems are generally reliable, they are built to ***"stand alone"*** from other tax processing systems. These systems were built at various times during the last 30 years, often using different data organization methods and programming languages, and were not designed to run on connected platforms. WDOR has programs written in Assembler, different versions of COBOL, and a variety of other programming languages. Data organization methods often reflect the decade during which the system was designed.

Consequently, WDOR systems are dated by their programming structure, language, platform, and overall data structure. The older systems do not integrate very well and are quickly becoming at risk as support becomes more difficult and expensive. Many of the older systems were also built prior to current methodology and documentation standards. The lack of standardization and documentation combined with the fact that many of the original developers are no longer employed with WDOR adds to the risk factor. The Sales Tax System and the Individual Income Tax System, two of the oldest and longest running systems, are examples of critical systems at risk.

WDOR recently implemented two new taxes based on sales tax law (the Local Exposition Center Tax and the Stadium Tax). The agency was forced to develop separate silos for processing due to the age and inflexibility of the current Sales System. The decision to create new silos has had

a price in duplication of effort for application development staff, line workers, and taxpayers. The 1992 Strategic Information Technology Plan reported that 70% of all WDOR application development resources are expended maintaining these existing applications. A current benchmark study of WDOR technology and application development resources will provide data regarding the level of improvement or decline.

A.3 Other States' Tax Integration Activities

WDOR is not alone in the assessment that silo system development has reached a point where change is desperately needed. More than 30 state revenue departments are transforming from a silo system environment to a system of ***Tax Integration***. The accepted definition of an integrated environment is one organized around functional areas rather than by tax type. The degree of integration that revenue agencies undertake depends on the mission of each agency and their starting point in each functional area.

Some states are estimating dramatic revenue increases in collections and audit, because they currently have limited activity in these particular revenue areas. Revenue generating opportunities for Wisconsin will not match this level of increase, since WDOR collection and audit activities are more advanced than some other states, and WDOR has already projected additional revenue as a result of the Delinquent Tax System and Audit Automation projects. However, revenue opportunities for Wisconsin still exist. Information collected on other state integration projects shows that all states are projecting revenue increases from integration ranging from .25% to 3% of annual gross revenues. Even at a more conservative estimate, an increase in revenue by only .1% could generate $8 million annually in Wisconsin. The actual increase depends on the ability to further expand audit and collection activities due to tax integration.

The cost/benefits of tax integration reflect the various starting and ending points. As illustrated by Attachment B, Other States Tax Integration Projects, the scope and method of integration efforts vary widely from state to state. States have basically three choices in how they have developed integrated systems. They can develop integration projects completely in-house, purchase customized software developed entirely by a vendor, or form a partnership with outside vendor(s) to share in the development and control of the tax integration system.

A.4 The Wisconsin Definition of Tax Integration

"TAX INTEGRATION IS A FRAMEWORK
OF PEOPLE AND TECHNOLOGY
ORGANIZED TO PERFORM ACTIVITIES THAT ARE
LOGICALLY DELINEATED BY FUNCTION
TO ADMINISTER TAXES FOR THE STATE OF WISCONSIN"

The Wisconsin definition of Tax Integration describes a desired tax administration methodology. A "framework" is integral to tax integration as it includes the people, organizational structure, customer orientation, systems, and the overall environment under which state taxes are administered at WDOR. Tax administration requires people (employes) to use technology

whenever possible to perform activities in support of WDOR's mission.

The definition further implies that there is a basic set of critical functions to successful tax administration. These functional areas must be "***logically delineated***", aligned in a reasonable and justifiable fashion. The functions are:

- **Assist Taxpayers**
- **Register Taxpayers**
- **Process Returns**
- **Manage Accounts Receivable**
- **Process Refunds**
- **Audit and Investigate Taxpayers**
- **Manage Collection Cases**
- **Account for Revenue**

The definition led to the development of a pictorial model (Cover Page) to help clarify the relationship of the functions. The pictorial model shows that the mission of WDOR centers around the primary responsibility, tax administration. The customer focus is represented within the first ring around the core responsibility (WDOR's mission), which illustrates that customers include both taxpayers and the State of Wisconsin through the accounting for revenue. The functional activities and systems in support of both tax administration and the customers appear in the outer ring.

A.5 WDOR Previous Steps Toward Tax Integration

In an effort to help WDOR better understand tax integration and to explore the various alternatives, a Visioning Seminar was sponsored by the department on April 22-23, 1996. Seminar participants listened to representatives from four other states, who presented their perspectives on tax integration. Two major vendors (AMS and Andersen Consulting) also demonstrated their products and participated in the discussion. They proposed different solutions in terms of design philosophy, cost, and implementation effort. The seminar was instrumental in establishing further dialog, as participants came away with different points of view on definition, scope, and vendor choice.

Other strategic tax integration initiatives at WDOR started much earlier. Some of these initiatives involved system development, but one initiative involved the adoption of strategic planning. WDOR developed its first Strategic Business and Information Technology plan in 1992, which recommended several integration-type initiatives over a five-year horizon. As WDOR approaches the end of this initial five-year time period, some conclusions can be drawn from the 1992 plan. First of all, the vision of developing a quality work force and utilizing technology to support tax administration continues to be a driving force of change within the agency.

The 1992 strategy of "*Integration and Compatibility*" sought to increase functionality, to eliminate data redundancy, and to build accessible enterprise-wide databases. However, the 1992 plan did not envision a complete integration of WDOR systems along functional lines.

Finally, two major application development projects were approved for continuance in 1992 that form the cornerstones of tax integration. They were not labeled tax integration projects at the time, but the Delinquent Tax System (DTS) and the Business Tax Registration (BTR) projects are designed to build two critical functions of tax integration, **Register Taxpayers** and **Manage Collection Cases**.

The DTS Project began in 1992, although the current Delinquent Tax Collection System (DTCS) had been integrated across tax programs since its development in 1970. The DTS project is a continuation of one of WDOR's oldest integration efforts, with the DTS project having the following goals:

- Modernize and redesign the current DTCS by providing new functions and expanding the capabilities of existing functions.
- Provide computer support for a new Central Collection Section within the Compliance Bureau.
- Establish an Accounts Receivable processing platform for delinquent payment processing that other WDOR tax processing systems can expand.
- Utilize cooperative processing across a PC/LAN server/mainframe distributed network of hardware and software.
- Redesign the current DTCS VSAM data files into DB2 relational databases.

The following benefits are expected from DTS:

- Increased productivity through:
  - Eliminating clerical positions.
  - Eliminating clerical tasks from professional positions.
  - Devoting more resources to direct revenue production.
- Easy availability of information with:
  - Concise case notes on screens available statewide.
  - Quicker access to information via composite taxpayer screens.
  - Better management information about delinquents and delinquencies.
- Reduction of overhead by:
  - Laser printing of standard forms, reducing pre-printed inventory.
  - Shifting mailing to Madison for better postal rates.
  - Electronic filing of warrants through the Circuit Court Automation Project (CCAP).
  - Developing software with an object-oriented rapid application development tool, thereby reducing maintenance costs.
- Client/server architecture providing:
  - Access to data for central and field employes.
  - Ability to take the application to the field.
- Redesign and standardization of business practices with:
  - Development of a Central Collection Section.
  - Development of standard case scenarios for different case types.
  - Flexibility to modify scenarios to meet changing needs.

- Increased support for revenue agent and supervisor activity using:
  - Case management to automatically prompt when follow-up dates are reached.
  - Automated correspondence generation.
  - Automatic recording of actions taken.

Substantial pieces of the case management functionality and automated support for collection actions have already been implemented by the DTS project for use by the Central Collection Section. The core functionality of this project will be completed by June 30, 1997, allowing the deactivation of DTCS. By June 30, 1998, the LAN environment will be installed in all field offices and all DTS functionality will be available.

The Business Tax Registration (BTR) project began in 1996. The objectives of this project are to reduce:

- Complexity of the business registration process for the taxpayer.
- Workload related to the registration process by eliminating duplication of effort and unnecessary complexity in the variety of permits and the computer systems used for issuance.
- File maintenance workload and redundancy of maintaining taxpayer identification information on multiple computer systems.

The following benefits are expected from BTR:

- Reduced complexity for customers through:
  - A single point registration process for all customers.
  - Multiple ways to submit an application, with primary emphasis on telephone registration.
  - Completing all standard registration requests in 48 hours or less.
  - Registering each entity only once.
- Reduced workload through:
  - A common registration application.
  - A single process to register all permit-producing taxes.
  - Elimination of multiple keying and updating of the same information.
  - Production of a single BTR Certificate listing all authorizations.
- Reduced redundancy through:
  - A common name and address data base for all permit systems.
  - A data model that can be expanded to handle other non-permit-producing systems.
- Improved enforcement through:
  - Automated delinquent checks for security deposits.
  - Developing compliance tools to identify non-registrants.
  - Verifying entity type and identification in real time.
- Shifted focus from tax programs to processes by:
  - Equipping and training registration employes to work all tax programs.
  - A common registration application on all employes' desks.
  - A common name and address data base for all permit systems.

The core functions of the BTR system, combined registration and renewal processes, are expected to be implemented by January 1, 1998, with the telephone system and telephone

registration to be implemented by June 30, 1998. By the end of 1999, all permit-generating systems will be converted to directly use the BTR database.

Another current project is the Electronic Filing/Audit Automation (ELF/AA) project, which began in 1994. The vision and objectives of this project fit under the critical functions identified as "Audit and Investigate Taxpayers". The improvements sought from ELF/AA fit into the WDOR strategic plan visions and goals. The specific objectives of the ELF/AA project are:

- To provide staff with personal computers and the necessary training and support that will permit the audit of returns that are filed electronically or scanned into the department tax return processing system, and to work with taxpayers' records that are maintained electronically.
- To improve the method of auditing returns by utilizing computer technology to select returns for audit that meet certain proven criteria.
- To develop a computer system that will replace the current error-prone data entry worksheet with a 100% error-free computer data entry screen. This system will also enable the Audit Bureau to generate assessments and refunds more quickly.
- To provide the Audit Bureau with the capability to respond to events, such as legislative mandates and court cases, without having to cease normal activities that require personnel to be assigned to costly, time-consuming manual activities.

Successful completion of the ELF/AA project will produce an additional $5 million annually in revenue by automating the following activities that currently reduce time available for conducting audits:

- The preparation of assessments, refunds, and file maintenance.
- Audit selection criteria.
- The manual capture of audit statistics.
- The manual generation of audit reports, audit tracking, and file location.

The project phases defined for ELF/AA are:

- Create on-line mainframe individual income tax audit worksheets.
- Create an on-line mainframe individual income tax file maintenance system.
- Create on-line mainframe corporation/franchise tax audit worksheets and a file maintenance system.
- Migrate on-line auditing from a mainframe computer platform to a PC LAN platform.
- Create an Audit History Database.
- Automate audit selection and audit statistics.
- Automate file requests, on-line credit memos, and correspondence.
- Reengineer the nonfiler program.
- Develop electronic management reports, PC file cabinets and electronic communication, all of which will be added to the above phases.

The first phase, to create on-line mainframe individual income tax audit worksheets, has been completed. The second phase, to create an on-line file maintenance system, is scheduled for completion in mid-1997.

A.6 The Importance of Retaining the DTS and BTR Development Projects

WDOR should give strong consideration to retaining the development that has occurred on the DTS and BTR projects as the foundation of any Wisconsin integrated tax project. Both projects would be assets that WDOR could bring to the table in any negotiation with a prospective contractor partner. In addition, the following items argue in favor of the retention of these projects:

DTS

- WDOR has made a tremendous investment of time and resources in this project during the past four and a half years.
- DTS has been tailored to meet the specific needs of WDOR.
- DTS is fully integrated to handle all tax programs that generate liabilities, including several SLF programs.
- The case management features designed into DTS could have wider applicability in the department.

BTR

- BTR is also being tailored to meet WDOR's needs.
- A BTR system must be developed by January 1, 1998 in order to support the commencement of BTR certificate renewal at that time, since no current WDOR system will support this activity.
- The BTR project team has been planning from the beginning to support the needs of non-BTR systems in its taxpayer database.

The utilization of the development work invested in DTS and BTR allows WDOR to begin a tax integration project with a substantial head start.

B. Problem or Opportunity Definition

Current WDOR tax systems have been developed at various times. Systems first developed in the 1960's operate alongside systems implemented as recently as 1996. They use various languages (Assembler, IMS, CICS, Enfin and Microfocus Cobol), and they have various sets of functions. Attachment C, Current System Functionality, outlines the functionality of each of the department's current major tax systems.

B.1 Problems

Many of the current systems contain modules that support WDOR employe and customer needs very effectively, but not all systems operate at the same level of effectiveness for all activities. No single tax system uses the "best practice" model for all activities. For some processes, we must implement the "best practice" of other states or industries. Some systems do not support all necessary functions, resulting in the following problems:

- WDOR employes must work manually when a process could be automated.
- WDOR employes or taxpayers must perform work multiple times because systems have separate parallel processes.
- WDOR cannot provide the same level of taxpayer service from every tax system.
- WDOR cannot protect the state's interest by ensuring that all taxes due are paid and deposited in a timely manner.

- WDOR employes cannot access all the information collected by the department electronically.
- Some WDOR systems are written in out-of-date, unsupported software and use antiquated processes.
- WDOR devotes too many of its application development resources to law changes and maintenance of existing systems, limiting the amount of new development that can take place.

WDOR employes must work manually when a process could be automated. Excessive time is spent on paper-handling tasks, both by clerical and professional employes. If all processes and systems were automated to the optimum level, this time could be reallocated to revenue-producing or taxpayer-service activities.

Examples:

- Some systems (e.g., DTS) allow employes to select and produce standard correspondence by selecting entries on a screen. Most systems and employes must complete a typing request to initiate production of standard letters. Other employes in word processing units then type and produce these documents.
- Some systems (e.g., Withholding, Income Office Audit) allow employes who are initiating adjustments to key the adjusting figures and explanations of the adjustments onto a screen to initiate production of a bill. Other systems do not, requiring employes to enter adjusting figures and explanations onto handwritten worksheets, which are keyed by data entry staff or typed by word processing operators.
- Using paper reports produced by other computer systems, employes in the Revenue Accounting Section must manually record 30 different accounting transfers monthly to generate a monthly report.
- Some systems (e.g., Income Processing) allow amended returns to be automatically processed and compared with previous filings to compute an updated record. Other systems (e.g., Corporation, Sales) do not, resulting in employes manually retrieving previous filings and verifying the computation on the new return.

WDOR employes or taxpayers must perform work multiple times because systems have separate parallel processes. This results in productivity loss on the part of employes and poor service for customers. WDOR must rely on human memory and understanding to complete activities that must be repeated in several systems, thereby increasing the potential for errors.

Examples:

- WDOR may maintain a separate record of the name and address of a business owner in the Sales Tax System, the Withholding Tax System, the Individual Income Tax System and the Individual Income Estimated Tax System. If the business owner changes his address, he must record that change on four different documents to record the change in each system. If he calls to report the change to an employe, that employe may or may not realize that the change needs to be made in all four systems.
- Because the Sales Tax System could not be modified quickly enough to process combined sales/stadium returns completely, a process was developed to "split" stadium information from each return and route it into a separate stadium system. This means that, if a

taxpayer makes a computation error on his combined sales/stadium return, he will get two separate bills for the balance due, probably issued at different times.

- The address history file for Income Processing, QNAME, only allows updates to be keyed at one time of year. When taxpayers notify the department, throughout the year, that their address has changed, this information has to be recorded on paper and stockpiled until the update period. If an audit assessment is generated between the time information is reviewed and when it is entered and the auditor is unaware of the change of address, the assessment will be sent to the wrong address.

WDOR cannot provide the same level of taxpayer service from every tax system. Lack of consistency confuses taxpayers and leaves them with the impression that they are dealing with an organization that does not communicate effectively.

Examples:

- Some systems (e.g., Withholding, Motor Fuel, Corporation Estimated Tax) allow payments to be made through electronic funds transfer while others do not (e.g., Sales). Some systems (e.g., Individual Income, Motor Fuel) allow electronic filing while others do not (e.g., Sales, Corporation). Customers who deal with more than one system do not understand why these options are not uniformly available.
- Each system independently issues its own bills and refunds. A taxpayer can be sent a bill by one system while at the same time they receive a refund from another system.
- Information from returns filed are captured and displayed on screens by most systems; however, the amount of information captured and the time between return receipt and data capture varies from system to system. WDOR employes cannot respond to taxpayer inquiries with the same level of speed and accuracy for each tax program.

WDOR cannot protect the state's interest by ensuring that all taxes due are paid and deposited in a timely manner. This may result in lost revenue to the state.

Examples:

- Employer withholding deposits are not reconciled to the amount of state withholding shown on employer copies of W-2's filed with the state. An employer can report and deposit less tax with the department than actually withheld from employes' wages and not be identified.
- Some current refund processes do not check current refunds against refunds previously issued to detect duplication. Thus, the same refund can be issued to a taxpayer twice and will not be identified unless the taxpayer notifies WDOR.
- Some systems automatically transfer unpaid bills to the delinquent system a specified number of days after the due date. Bills from other systems must be manually entered into the delinquent system, delaying the commencement of collection activity on those bills.
- There is no system to track unresolved refund claims other than manual records of individual employes. If these records are not properly maintained and a refund claim is not acted upon within one year, WDOR must issue the claimed refund, whether valid or not.

- There is no efficient way to deposit sales tax payments received separately from the return. Checks may not be deposited until a bill is generated resulting in lost interest to the state.

WDOR employes cannot access all the information collected by the department electronically. Because of this, decisions are made based on incomplete information or taxpayers are not served adequately.

Examples:

- Employers must send the department copies of the W-2's they issue to their employes. If an employer has more than 250 employes, the employer must send this information on magnetic tape, although WDOR uses little of this information. WDOR does not record the information from paper W-2's submitted by employers with 250 or fewer employes. None of the W-2 information is available to WDOR employes on-line.
- Certain actions taken by WDOR do not appear on computer screens accessible to all WDOR employes. Withholding responsible person assessments do not appear on any screen until they are past due and entered into DTCS. Purchaser claims for sales tax refunds are recorded only in the paper file of the retailer who made the sale.
- Audit actions do not update a taxpayer's income tax history. To determine if audits have occurred that modify the history presented on the income history screens, an employe must refer to the taxpayer's paper file.
- Information in different computer systems cannot be easily compared to identify audit opportunities. For example, it is currently very difficult to compare gross receipts reported for sales tax on tax returns and Schedule C gross receipts to determine if the taxpayer is reporting (and reporting consistently) in both places.

Some WDOR systems are written in out-of-date, unsupported software and use antiquated processes. This results in an inability to respond to law changes and enhancement requests in a timely manner.

Examples:

- The Sales Tax System is written in IMS. WDOR has had increasing difficulty hiring programmers knowledgeable in IMS for several years. IMS is less flexible than current software and impedes the implementation of new laws in a tax program that experiences frequent law changes. The need for IMS knowledge also prevents WDOR from easily reallocating application development staff to the Sales Tax System in times of high demand. The Sales Tax System will need to be rewritten in a modern language in the near future regardless of progress on a Tax Integration System.
- The income system master file is stored in a VSAM file rather than a database. Ad hoc statistical requests cannot be met using a query tool; they must be handled by a programmer. Regularly scheduled statistical reports are costly to generate, without a database format.
- The computation programs in the Income Processing System are written in Assembler. WDOR also has difficulty recruiting programmers that are knowledgeable in Assembler. This system will also need to be rewritten in a modern language in the near future.

- Batch processing is the rule rather than the exception for WDOR systems. Batch processing solutions may continue to be cost effective, but more interactive systems are required to meet expanding demands for real-time information and time sensitive responses to taxpayers and employes.

WDOR devotes too many of its application development resources to law changes and maintenance of existing systems, limiting the amount of new development that can take place. Law changes can be particularly time-consuming if they affect several tax types and require the same programming changes to be made in several systems.

Examples:

- WDOR needed to reallocate staff from the sales tax team and the audit automation project because of the need to implement the stadium tax on very short notice. This slowed development in audit automation and prevented WDOR from proceeding with electronic funds transfer for sales tax.
- In 1990-91, WDOR prepared to implement the original temporary recycling surcharge and then had to redesign what had already been programmed when the law imposing the surcharge was modified shortly before implementation. Devoting resources to this meant that work on the redesign of the corporation processing system was halted for approximately a year.
- If the statutory rate of interest on additional or delinquent taxes were changed, it would require modifications to practically every one of WDOR's computer systems.

B.2 **Opportunities**

If WDOR had unlimited staff to devote to application development, some of the problems listed above could be resolved in the existing systems. However, integration provides WDOR an opportunity to solve many of these problems in a more cost-effective way. Tax integration provides the following opportunities:

WDOR employes can use a system that is designed around the "Best Practice" for each function. Since the same computer process is used for the same activity in each tax program, functionality will be easily maintained in all programs. When enhancements in "Best Practice" are developed for a function, they are immediately available for all tax programs using that function.

WDOR employes can present a taxpayer-centered, rather than a tax-program-centered, viewpoint to their customers. Information can be recorded and actions taken once to achieve the results needed in all tax programs. Taxpayer assistance will be provided by a unified department rather than separate, seemingly unrelated, offices.

WDOR will be able to provide its customers a full range of services across all tax programs. Services that reduce department overhead or make filing and paying easier for taxpayers will take less time to implement because they will only need to be designed once. Taxpayers will experience less confusion determining what options are available for what taxes. Enhancements or law changes which affect more than one tax program can be developed once rather than several times.

WDOR systems will include consistent internal controls that protect the state's interest. Information from other tax programs needed to verify that liabilities have been reported and paid will be readily available.

WDOR employes will have access to more information electronically and will be able to view information from a taxpayer-centered perspective. This information can be used to serve the taxpayer more effectively and to ensure that taxpayers are meeting all their taxpaying responsibilities.

WDOR systems will be written using modern software and processes while using the same software for all functions. WDOR can more easily hire programmers with the necessary skills and can more easily reallocate them to the more critical application development work. Law changes can be implemented quickly with minimal disruption to WDOR employes and taxpayers. Relational databases allow easy access for ad hoc statistical requests to support informed decision-making and are considered the technology for the twenty-first century.

WDOR can minimize the amount of applications development time spent on future law changes and required maintenance. This would allow more time to be devoted to system enhancements that would benefit the customer and WDOR employes.

C. Visions, Objectives and Measurement Strategies

C.1 Visions

After identifying the problems and opportunities that currently exist, a set of visions were developed around each of the critical functions of a Tax Integration System. Vision statements outline the future activities in which WDOR will need to focus. The vision statements of tax integration were further linked to the WDOR Strategic Business Plan Vision and Goal Statements (Attachment D). From these visions statements measurable objectives were established to help gauge overall progress. The measure of success for integration will be judged upon meeting those measurable objectives.

Vision for **Assist Taxpayers**

Provide the taxpayer with information and returns to voluntarily comply with tax laws. This function:

- Simplifies forms/instructions.
- Makes staff available/accessible to taxpayer.
- Provides convenient hours, locations, filing methods.
- Moves toward a single point of contact.
- Allows faster turnaround time.
- Promotes WDOR as a resource center.
- Is proactive, listens to taxpayer concerns/issues.
- Provides timely and accurate information.

Link to Strategic Business Plan Vision & Goal Numbers:

Vision #3: Goals 1,2 Vision #8: Goals 1

Vision for **Register Taxpayers**
Establish a single registration system creating a taxpayer profile in an enterprise data model. This function:

- Promptly issues authorizations.
- Reduces multiple mailings.
- Is cost effective.
- Makes registration easy to access (phone, internet).
- Provides value to the customer.
- Provides for a single point of contact.
- Eliminates need for multiple name and address files.
- Supports all tax types.
- Allows employes to efficiently access taxpayer profile.

Link to Strategic Business Plan Vision & Goal Numbers:
Vision #2, Goals 4,7 Vision #3: Goals 1,2 Vision #8: Goals 1

Vision for **Process Returns**
Manage the workflow of returns in an efficient and accurate manner. This function:

- Captures data to retain for subsequent internal and external purposes and follows consistent processing rules.
- Reduces the need for temporary employes.
- Handles and accounts for returns with multiple tax types (e.g., stadium tax on sales tax returns).
- Promotes alternative filing and payment methods (non-paper).
- Promotes alternative data and image capture methods that allow longer retention.
- Enables easy matching of data across tax types.
- Provides taxpayer with simplest returns possible.
- Utilizes the processing system to identify exceptions and eliminate pre-screening.
- Promptly deposits remittances.

Link to Strategic Business Plan Vision & Goal Numbers:
Vision #2, Goals 1,2,3,4,5,7 Vision #3: Goals 2 Vision #4, Goals 3 Vision #8:Goals 1

Vision for **Manage Accounts Receivable**
Utilize a central system that promptly and accurately records payments and outcomes of balance due notices. This function:

- Uses consistent aging rules.
- Automatically transfers liabilities to delinquent collection.
- Accurately identifies unpaid bills.
- Promptly deposits remittances.
- Facilitates handling of inquiries.
- Manages appeal cases.
- Handles multiple tax types on the same bill.
- Applies refund offsets to non-appealable bills.

Link to Strategic Business Plan Vision & Goal Numbers:
Vision #2, Goals 4,5,7 Vision #3: Goals 1,2 Vision #4, Goals 1,3
Vision #7, Goals 3 Vision #8: Goals 1

Vision for **Process Refunds**

Create one automated system that processes overpayments for all tax types in a timely and accurate manner. This function:

- Intercepts overpayments to apply to internal and external liabilities.
- Issues refunds on paper or electronically.
- Maintains an easily accessible refund history.
- Applies overpayments to estimated tax.
- Provides automated inquiry support.
- Provides efficient service to claimant customers (e.g., other state agencies, etc.).
- Provides acceptable internal controls.
- Allows overnight issuance of priority refunds.
- Standardizes and automates management approval rules.
- Combines necessary information with the check.

Link to Strategic Business Plan Vision & Goal Numbers:

Vision #2, Goals 4,5,7
Vision #3: Goals 2
Vision #4, Goals 3
Vision #7, Goals 3
Vision #8: Goals 1

Vision for **Audit and Investigate Taxpayers**

Create a single automated system for all tax types that targets most productive areas for revenue production and compliance. This function:

- Integrates internal and external data sources.
- Presents at least 6 years of tax return data electronically.
- Facilitates audit and investigation selection through on-line query.
- Allows on-line entry to generate automatic correspondence, assessments, refunds and file maintenance.
- Updates taxpayer history file.
- Allows for case management of audits and investigations including on-line case notes.
- Supports on-line query in order to generate reports on audit productivity.
- Utilizes return processing modules to compute tax, penalty, interest and fees.
- Promotes and enforces compliance and fairness.
- Identifies common areas of negligence and fraud.
- Encourages conducting an audit as soon as possible after an issue is identified.
- Provides automated support for self-audit.

Link to Strategic Business Plan Vision & Goal Numbers:

Vision #2, Goals 1,3,4,5,7
Vision #3: Goals 1,2
Vision #4, Goals 2,3
Vision #7, Goals 2
Vision #8: Goals 1

Vision for **Manage Collection Cases**

Develop a single automated system that allows prompt collection of all delinquent taxes using the lowest level of enforcement necessary. This function:

- Categorizes and prioritizes collection cases for assignment.
- Provides automated support for collection actions.
- Maintains both financial and case history records for all cases.
- Integrates internal and external information about collection sources.

Link to Strategic Business Plan Vision & Goal Numbers:

Vision #2, Goals 4,5,7 Vision #3: Goals 1,2
Vision #4, Goals 3 Vision #7, Goals 2,3
Vision #8: Goals 1

Vision for **Account for Revenue**

Develop a single automated system that provides statistics and disbursements to internal and external customers for all documents, dollars collected, and refunds issued. This function:

- Categorizes data by tax type.
- Is accurate, timely and consistent.
- Eliminates manual refund intervention.
- Meets generally accepted principles of accounting.
- Supports new/changing tax types.
- Easily interfaces and reconcilable with the state accounting system, WISMART.

Link to Strategic Business Plan Vision & Goal Numbers:

Vision #2, Goals 4,5,7 Vision #3: Goals 2
Vision #4, Goals 3 Vision #8: Goals 1

C.2 <u>Objectives</u>

There are several objectives of a Tax Integration System. Each objective expands the vision statements into measurable targets.

The WDOR Tax Integration System objectives are to:

- Manage and use information efficiently and effectively.
- Utilize common processes.
- Be functionally driven.
- Design systems that have a consistent look and feel for employes and customers.
- Be built upon a single enterprise-wide data model.
- Provide taxpayers a single point of contact.
- Utilize technology to more effectively manage resources.

Targets for the objective of **Manage and use information efficiently and effectively** are to:

- Store information one time.
- Store information by taxpayer and not tax type.
- Capture more data from internal and external sources.
- Make data and information accessible electronically to employes.

Storing data once will reduce the amount of central processing unit (CPU) charges and cost of storage. The organization of information by taxpayer, rather than by tax type, will make that information more readily available. Employes will provide better taxpayer assistance, which will improve employe productivity. Better organization and the elimination of redundant data storage allows for the capture of more data. Making data more accessible electronically will also result in increased productivity gains by eliminating unproductive manual effort. This allows WDOR to shift employes into more revenue producing activities, such as audit projects and collection work.

Targets for the objective of **Utilize common processes** are to:

- Use the same module to do similar activities in all tax types and across functions.
- Standardize procedures for employes.
- Reduce the complexity of management decisions.

The use of common processing modules will reduce the application development time for changes. It will also reduce training time. Common processing modules combined with more standardized procedures enable staff flexibility, resulting in more accurate and consistent solutions and increased application development productivity.

Targets for the objective of **Being functionally driven** are to:

- View taxpayer as a single entity rather than separate components divided by tax types.
- Utilize the same system components and features across all tax programs.

Viewing the taxpayer as a single entity and making information available to employes in a single integrated manner should produce fewer taxpayer and employe errors. Fewer taxpayer complaints will be complemented by better and faster service, thus increasing employe satisfaction and productivity. Providing taxpayers common features regardless of tax type, such as electronic filing, scanning, imaging, centralized billing, automated correspondence, and electronic funds transfers (EFT) payments will increase customer satisfaction and agency productivity.

Targets for the objective of **Design systems that have a common look and feel for employes and customers** are to:

- Provide forms that share a common design, including field names, identifying numbers, contact telephone numbers, etc., and offer ease of use to both the taxpayer and department employes.
- Provide common computer screen layout rules, function keys, field formats, identifiers, glossary of terms, and electronic help.

Increased taxpayer and employe satisfaction, reduced taxpayer and employe errors, and reduced processing time are measures of success.

Targets for the objective of **Be built upon a single enterprise data model** are to:

- Store information one time.
- Accommodate law changes easily.
- Allow users to easily query data.
- Provide employes easy access to decision tools.
- Provide employes decision tools that more accurately and consistently answer questions.
- Merge the current BTR and DTS to form the basis of an enterprise data model.

The measures of this objective are reduced CPU charges, a reduced cost of computer disk storage, and less programming time and resources needed to implement law changes and obtain ad hoc information. Faster and more accurate employe response time will also lead to improved credibility of WDOR and reduce rework by employes. A final measure will be the feedback received from taxpayers and employes utilizing the system.

Target for the objective of **Provide taxpayers a single point of contact** is to:

- Allow the taxpayer to experience WDOR as a single entity working in unison, rather than an organization fragmented into different taxes and activities.

WDOR, and thus taxpayers, benefit by increased voluntary compliance. Improved taxpayer satisfaction and reduced numbers of nonfilers and taxpayer errors will be a measure of this objective.

Targets for the objective of **Utilize technology to more effectively manage resources** are to:

- Increase the capture of electronic data.
- Improve the movement and use of electronic data, reducing the paper workflow.
- Better manage employes and workload.
- Move away from mainframe based computer systems to Graphical User Interface (GUI) multi-tier systems.

The measures of improved and increased use of technology can be found in improved productivity from the agency as a whole, fewer taxpayer complaints or questions, reduced duplication of work, reduced backlogs, and better supervision of employes.

The desired objectives of tax integration fit into most, if not all, of the visions and goals of the strategic plan. All the objectives of tax integration attain the vision of expanding the use of technology and communication. The effective use of technology also expands WDOR's ability to provide individual service to taxpayers. Reducing employe time spent on manual tasks, such as retrieving tax return information, empowers employes to become more knowledge oriented instead of task oriented. Consequently, technology and the subsequent creation of an electronic environment increases communication, overall productivity and the quality of service provided by WDOR employes.

C.3 Measurement Strategies

One of WDOR's measurement strategies is to determine the level of improvement in taxpayer and employe satisfaction. Another strategy is to measure productivity. To accurately measure the effects of tax integration on increasing productivity and satisfaction, a current set of benchmarks is needed in these areas.

The following are benchmarks of the current situation used to develop measures of improvement.

C.3.1 Increasing Productivity

Past and Present Strategy:

WDOR's Income, Sales, and Excise Tax Division (IS&E) has existing performance indicators with each bureau having unique performance indicator schedules.

Future Strategy Recommendation:

Use the current performance indicators and other sources of data, set benchmarks for audit, collection, processing, and taxpayer assistance production.

Monitor the same data and review periodically during and after the completion of integration projects. Measure any change in productivity while trying to identify and quantify elements that would affect productivity that are not a factor of tax integration. Examples of data that could affect results are changes in staffing levels, state-wide and federal economic factors, tax rate increases or decreases, and major tax case rulings (i.e., Hogan/Davis, etc.).

C.3.2 Determining Taxpayer Satisfaction

Past and Present Strategy:

WDOR currently measures taxpayer satisfaction. Some examples are office and field post audit questionnaires sent to taxpayers, surveys handed out to customers who receive taxpayer assistance in person at WDOR offices, and letters on homestead credit and farmland preservation credit enclosed with forms mailed to practitioners.

Future Strategy:

Develop a survey to send to taxpayers receiving assistance by telephone to benchmark taxpayer satisfaction. On a regular basis, re-survey taxpayers in an attempt to measure changes in taxpayer satisfaction. Implement a talk back program, so taxpayers can send either voice, fax, or E-mail comments to a central department collection point.

D. Alternatives

The following alternatives were identified as possible recommendations to attain the business opportunities detailed in Section B and the objectives of the strategic business plan visions and goals in Section C.

D.1 Maintain the status quo.
Despite problems WDOR experiences with its present organizational structure and computer systems, the agency can continue with the present direction of developing systems and output by tax type.

D.2 Develop a Tax Integration System using an external vendor.
This alternative plans for the total outsourcing of Tax Integration System development based on internal specifications.

D.3 Develop a Tax Integration System using internal resources.
WDOR is presently conducting two development projects that are very significant under the definition of Tax Integration for Wisconsin, DTS and BTR. These internal initiatives cover two of the functions of a Tax Integration System identified as **Register Taxpayers** and **Manage Collection Cases**. The remaining functions would also be developed internally by dedicated project teams.

D.4 Use a combination of internal and external resources to develop a Tax Integration System
This alternative involves keeping the integrated functions WDOR is already developing. It requires that DTS and BTR be identified as assets in any Request For Proposal (RFP) issued for external development of the remaining functions.

E. Analysis of Alternatives

Discussion of each alternative is based on three elements outlined in the definition of Wisconsin Tax Integration: ***Organization***, ***Technology*** and ***People***.

Criteria for analyzing the alternatives includes:

- Allows WDOR to manage and control the development of a tax integration system.
- Plans for the implementation of two major tax types in a tax integration system within five years.
- Preserves the WDOR investment of work completed on DTS and BTR.
- Considers the efforts to date on ELF/AA (although some modification may be needed).
- Provides a reasonable expectation that the necessary funds can be obtained through the budget process.
- Meets visions and objectives of Tax Integration.

E.1 Maintain the Status Quo.
The agency can continue with its present direction of developing systems and output by tax type considering functionality whenever possible without a tax integration plan.

ORGANIZATION - The IS&E division is broadly organized by function and continues to refine its functional alignment. However, if a tax integration system is not developed, employes in functional areas will still need to work with a number of different tax systems and will be hampered by the differences between those systems.

TECHNOLOGY - System development efforts other than BTR and DTS will continue to be divided by tax type, with small steps toward integration. System improvements will occur only when resources can be made available for a specific tax type. High priority law changes will continue to drive application development, which makes it unlikely that WDOR will achieve a totally integrated system. New taxes will continue to be addressed as silo systems, which will increase operating costs and organizational complexity. At-risk legacy systems (i.e., Sales and Individual Income) will continue to be modified until the complexity makes eventual integration efforts even more difficult. If WDOR does not pursue a Tax Integration System, it will still need to rewrite the Income Tax System and the Sales Tax System to eliminate dependence on out-of-date computer languages.

PEOPLE - Employes and taxpayers will continue to operate under WDOR's existing business conditions and rules. Service to taxpayers will vary by tax type and be dependent upon resource availability. Employes will continue to focus on specific needs by tax system rather than on the customer as one entity. Employes currently assigned to functionally defined areas, such as the Audit Bureau and the Office of Appeals, will continue to work with many systems. Some functional activities will continue to occur in multiple places, and some employes will continue to work in isolation.

Criteria:
Since 1991, WDOR has addressed projects resulting from the following unanticipated law changes and/or court cases: the temporary recycling surcharge, sales tax retailer discount modifications (two times), exposition authority tax, stadium tax, the Hogan-Davis case, the Manpower case, the NCR case, limited liability companies (LLC), earned income tax credit modifications (two times) and USPS postal reclassification. Law changes have absorbed an average of 25% annual application development time during this five-year period. If this situation continues, proactive steps towards functional integration are not possible as another employe responsibility.

Gradual integration efforts that extend beyond five years are at serious risk of being unsuccessful. Projects with long timelines often create situations where concurrent and subsequent development teams can not wait for an integrated solution. Their primary goal is to complete the project or implement the law change, not to address future agency needs.

This alternative would retain efforts already completed on DTS and BTR. It would also allow a strong WDOR voice in the development, if resources are ever available for tax integration development. It would be difficult to obtain budgetary funding for additional costs as the effort would be discretionary and therefore subject to cuts (if any funding was approved). This alternative would not meet the visions and objectives of tax integration.

E.2 Develop a Tax Integration System using an external vendor.
This alternative provides for the total outsourcing of a Tax Integration System development project.

ORGANIZATION - Internal reorganization will be required. Specifics of the reorganization will be based on the vendor's system specifications and deliverables. The critical functions defined for the system would also direct the reorganization within WDOR.

TECHNOLOGY - The development of an RFP will become the major focus to initiate this alternative. Vendors, including Andersen Consulting, AMS, KPMG Peat-Marwick, and IBM, will be sent WDOR's RFP. A tax system cannot be bought "off the shelf" because of statutory and agency requirements. Tax integration must meet the unique requirements of Wisconsin; therefore, the accuracy and inclusiveness of the RFP is critical. The experiences of other states must be considered during RFP development. During development and implementation, the vendor's performance and product must be closely monitored. Such a solution could cost up to $40 million, according to information on other state projects. The high cost of this alternative mandates effective project management and control within WDOR to minimize the additional unanticipated costs of change orders.

PEOPLE - External development will have a direct impact on employes before, during and after implementation of the system. In addition to significant workflow and procedural changes to line workers' daily activities, an externally developed system will significantly impact application development staff. WDOR programmers will need to be trained to maintain and support the system after the vendor completes the project. This alternative reduces the amount of time during which very significant change would be implemented.

Taxpayers will experience less complexity when working with WDOR because the system will provide a single point of contact across tax types.

Criteria:
Contracting with an external vendor will meet the requirement for project completion within five years. It is possible that a fully implemented system could be in place in under 40 months after the contract award based on other states experiences.

Under this alternative, WDOR will likely sacrifice BTR, DTS, ELF/AA, and possibly other new development projects. Some analysis and requirements from these projects will be incorporated into the RFP as system specifications. However, it is highly unlikely that a vendor will "recycle" many development efforts. Vendors will use their own registration, collection, and audit solutions as the foundation for an integrated system.

Some vendors will respond to an RFP by proposing modification of a Tax Integration System developed for another state. Many states have indicated that this approach results in a system implementation that requires many contract change orders and forces procedural changes to address differences. Ohio, despite a carefully drafted and detailed RFP, is presently

experiencing this. In this type of implementation scenario, the need to meet project deadlines will directly conflict with the need to customize a system for WDOR's needs. This alternative jeopardizes WDOR requirement of having a strong voice in the project.

E.3 Develop a Tax Integration System using internal resources.
WDOR is presently conducting two development projects, DTS and BTR, that are very significant under the definition of tax integration for Wisconsin. DTS will be fully implemented by June, 1998 (with core features in production by July, 1997) while BTR will complete the first phase by January, 1998. Both project teams are aware of the tax integration initiative and have included tax integration as a goal for their projects.

These initiatives, BTR and DTS, cover two major functions of a Tax Integration System which were identified as **Register Taxpayers** and **Manage Collection Cases**. The remaining functions could be addressed by dedicated project teams internally, as resources allow.

ORGANIZATION - Internal reorganization will be required. Specifics of the reorganization will be developed as a component of a complete tax integration implementation plan. Using the critical functions of WDOR's tax integration as a foundation, the organization of IS&E will appear as follows:

T/P SERVICE	**TAX PROCESSING**	**AUDIT**	**COMPLIANCE**
Assist & Register Taxpayers	Process Returns and Refunds, Account For Revenue	Audit & Investigate Taxpayers	Manage Accounts Receivable and Collection Cases

TECHNOLOGY - The development of DTS and BTR should continue with some level of oversight to insure conformity with overall integration by function. The Audit Automation project can be expanded to consider audits for all tax programs. Project teams are already working on **Account for Revenue** (Revenue Accounting Action Plan development) and **Process Refunds** (Manual Refunds Action Plan development). Upon completion of DTS, the existing development team could be assigned to develop the **Manage Accounts Receivable** function. Case management functionality developed for DTS could be used as a basis for **Audit & Investigate Taxpayers**. The BTR team, upon completion of their work for permit taxes, would complete the **Register Taxpayers** function (by adding individuals, corporations and partnerships to their Business Name and Address tables). The development of a Sales Tax Processing System could serve as a prototype for processing all other tax types. Eventually an "expert" system could be built to assist taxpayers.

PEOPLE - Internal development alone will require the longest time to fully implement tax integration. Employes will not experience the benefits of an integrated system for several years, while the automation they require is delayed. All workflow and procedures will change eventually. However, the rate of development will create added pressures on production activities until full implementation occurs.

Taxpayer service improvements will also occur more gradually. However, once BTR is completed, WDOR service to taxpayers will improve because of centralization of the taxpayer's name and address across tax types.

Criteria:
Experience has shown that a development project of this scope cannot be completed within five years relying on internal resources. The Corporation and Withholding System projects each took six years to complete. The timeline for internal development will exceed six years even without law changes or court cases during this period.

Internal development would retain the completed work from BTR and DTS. WDOR would have complete control over subsequent development efforts apart from resource levels and other externally driven conflicting priorities. The plan would be to develop a system that would meet all the visions and goals of integration. The cost would already be covered in operating budgets since reliance would be entirely on existing resources. Kansas has estimated that their system development will cost $6 million in salaries, $42 million in consulting services, and $8 million in equipment over four years. Minnesota quoted their costs for a Tax Profile System at $15 million for salaries, contractor costs, and equipment.

E.4 Use a combination of internal and external resources to develop a Tax Integration System.
This alternative keeps what works in the present systems and the integrated functions WDOR is already developing. WDOR will combine these assets with the systems development of the remaining functions by external vendors.

ORGANIZATION - Internal reorganization will be required. Organizational units will be grouped by function. Employes will be organized according to their knowledge of the function and not the associated taxes. Once again, critical functions defined for tax integration will serve as a foundation for the reorganization. A plan for this reorganization will be developed in conjunction with the RFP and will be a component of a completed Tax Integration Implementation Plan. The organization of IS&E will be the same as detailed in alternative number E.3.

TECHNOLOGY - The most significant benefit will be the additional resources provided by the vendor working with WDOR staff. The outside vendor will provide additional input on WDOR's approach. WDOR will also benefit from present development efforts which the RFP will identify as the basis for subsequent integration. These efforts may possibly be assets when determining WDOR's share of system costs. Other progress on integration to date will reduce the external development costs. The functions of a Tax Integration System will comprise the various projects/phases that will move WDOR to total integration.

PEOPLE - The impact on employes will be significant. However, direct employe involvement in implementing respective functions will increase the employe level of commitment to integration, while reducing the stress resulting from implementing the change. Less reliance on external training and support will occur because of direct WDOR involvement in the development stage. Subsequent system maintenance will also be easier to support because of

involvement during development. Implementation of BTR and DTS will not be delayed, and taxpayers will experience immediate benefits.

Criteria:
This alternative allows for project completion for major tax types within five years. The value of WDOR efforts in BTR and DTS will be included in this project. Modifications to these systems may be needed depending on the external vendor with whom WDOR will "partner." WDOR will have a significant voice in defining system requirements.

The cost of shared development will be lower than total external development. However, this is dependent on the vendor, the value of WDOR assets (BTR and DTS), and the overall system requirements. Only vendor proposals can be used to cost out this approach in detail. However, this alternative does meet all the visions and objectives of Tax Integration for Wisconsin.

F. Recommendations

The best alternative to Wisconsin tax integration is alternative number 4:
Use a combination of internal and external resources to develop a Tax Integration System.

The major benefits to this alternative are:

- It is most likely to lead to a fully operational Tax Integration System for the two largest taxes (sales and individual income) within five years, with integration of other taxes shortly thereafter.
- It makes the functional organization work better by streamlining workflows and eliminating redundancy, which improves productivity.
- It retains, expands and merges the BTR and DTS functions, as well as less in-depth projects, such as audit automation into tax integration.
- It retains direct employe involvement with a vendor partnership arrangement, allowing employes to learn, plan, and implement the systems.

Initial development would be directed towards two critical IS&E tax types: individual income and sales. By beginning with income and sales taxes, the integration would focus in areas where current systems are most outdated and in the greatest need for flexibility. These two taxes represent 96% of all returns processed by WDOR and 81% of total revenue collections annually. These tax programs also experience the most volatility in legislative change, so that starting the integration effort with these systems would minimize the effect of future law changes on the development of the remainder of the system.

The proposed Tax Integration System would be able to support the tax programs administered by IS&E. In addition, State and Local Finance (SLF) systems could be integrated into this system to the extent that their functions overlap those in IS&E. Operations in the Office of Appeals and Office of Legal Council would also be supported by the **Audit and Investigate Taxpayers** function. The Division of Research and Analysis's need for accurate and timely data would be better met by standardized database tables that support a Tax Integration System.

User analysts and application development staff not required for ongoing maintenance would work with the vendor to plan, design, develop and implement tax integration. This method of development would allow the development team to take advantage of the experience of WDOR employes and would result in a system tailored to meet WDOR's needs. Applications development staff involved in the design effort would be well equipped to maintain and enhance the system once it is developed.

Failure to implement this recommendation will mean that WDOR will proceed with slow, piecemeal steps toward integration as described above under **Maintain the Status Quo**.

G. Implementation Plan

A tentative Implementation Plan (Attachment E) has been developed with the following assumptions:

- Sales tax would be the first tax program to move into the integrated system.
- Individual income, the excise taxes, withholding and corporation systems would follow.
- DTS and BTR form the basis for **Register Taxpayers** and **Manage Collection Cases.**
- The following critical milestones would have been reached according to schedule:
  - The core functionality of DTS is completed by July 1, 1997.
  - BTR core functionality for permit-issuing taxes and individual income tax is completed by January 1, 1998.
  - A request for necessary funding approval is submitted and approved as an interim budget request during the 1998 legislative session.
  - A vendor partner can be selected by September 1, 1998.

H. Cost/Benefit Analysis

This section needs to be further developed by a sub-team. This section will discuss other states' experiences in relation to costs and benefits and will outline the steps required to develop more information for a cost/benefit analysis. Three areas will be covered: 1) cost reductions resulting from tax integration; 2) additional revenue collected as a result of tax integration; and 3) cost of implementing tax integration.

H.1 Cost Reduction Resulting from Tax Integration

Cost reduction should result from some of the standardization and automation proposed in tax integration. In order to identify areas of potential cost reduction, a team should be assigned to perform the following tasks:

- Further develop the list of Future System Requirements (Attachment F) to add at least one more level of detail.
- Use these detailed system requirements to identify areas where costs can be reduced from today's operations.
- Estimate the potential reductions and identify when they will occur, based on the proposed implementation plan.

This team should be convened by January 1, 1997 with a target completion date of February 28, 1997.

H.2 Additional Revenue Resulting from Tax Integration

A number of states have projected additional revenue collections of up to $40 million annually from their tax integration projects. These projections are based on many factors including: increases in audit collections based on better audit selection, increased delinquent tax collections based on improvements in collection processes, and improvements to internal processes, such as matching refunds to accounts receivable.

Some states have made a revenue projection based on a certain percentage of growth in annual collections ranging from .25% to 3%. It is not advisable to apply these projections levels at WDOR, since audit and collection efforts at WDOR exceed that of many states. In addition, WDOR already has major development projects underway which have projected additional revenue in the areas where other states are anticipating revenue due to integration. For example, the ELF/AA project has projected additional revenue of $5 million annually, once the project is completed. Other States Tax Integration Projects **(Attachment B)** describes the estimates of additional revenue for each state that has embarked on a tax integration program.

A new team should be established to identify and explore additional revenue opportunities for WDOR. The team should be assigned the following tasks:

- Develop a list of additional revenue sources identified by other states and how they would translate to Wisconsin.
- Identify areas of potential increased revenue for WDOR from tax integration.
- Determine how to project the increased revenue from each area.
- Perform samples or test audits to verify revenue projections.
- Establish a methodology to measure future increases.

This team should be convened in early 1997 with a target completion date of June 30, 1997.

H.3 Cost of Implementing Tax Integration

Other states have estimated the cost of tax integration anywhere up to $40 million depending on the extent they use outside vendors. The cost of developing a Tax Integration System in partnership is dependent on several factors: which portions are developed internally versus through a vendor and what value is placed on the assets that WDOR contributes to the project (DTS and BTR). A team should be assigned the following tasks:

- Determine which modules of the project should be bid.
- Develop rough estimates of the potential costs of each module for bid.
- Write an RFP to solicit bids.

This team should be convened by August 1, 1997 with a target completion date of May 1, 1998.

Tax Program Statistics

		Individual Income Tax*		Corporation Income/Franchise Tax		Sales and Use Tax
Revenue collected annually:	FY 1994:	$3,639,429,700		$541,284,300		$2,427,900,100
	FY 1995:	$3,905,102,500		$631,750,300		$2,571,212,100
	FY 1996:	$4,157,657,500		$636,009,500		$2,704,226,000
Audit collections:	FY 1994:	$48,009,000		$28,709,300		$62,797,200
	FY 1995:	$47,294,800		$28,280,600		$59,563,300
	FY 1996:	$47,198,700		$25,225,600		$73,994,500
Delinquent collections:	FY 1994:	$38,948,400		$3,752,800		$26,621,400
	FY 1995:	$40,996,000		$4,251,100		$26,641,400
	FY 1996:	$42,083,900		$3,841,100		$26,923,600
Number of new registrants	FY 1994:	Not applicable.		Not applicable.		27,469
	FY 1995:					27,274
	FY 1996:					24,667
Number of active registrations:	FY 1994:	Not applicable.		Not applicable		195,275
	FY 1995:					198,866
	FY 1996:					202,231
Number of returns filed:		Estimates	Returns	Estimates	Returns	
	FY 1994:	645,600	2,801,058	65,100	99,900	1,174,800
	FY 1995:	745,100	2,830,382	72,200	105,500	1,201,900
	FY 1996:	778,200	2,777,580	71,900	107,000	1,229,500
Number of returns filed electronically:	FY 1994:	92,459		-0-		-0-
	FY 1995:	125,697		-0-		-0-
	FY 1996:	194,035		-0-		-0-
Number of EFT payments made:		Estimates		Estimates		
	FY 1994:	-0-		-0-		-0-
	FY 1995:	1,124		51		-0-
	FY 1996:	5,897		488		-0-
Number of refunds issued:	FY 1994:	1,849,931		9,562		16,991
	FY 1995:	1,713,112		10,959		16,449
	FY 1996:	1,930,278		14,057		18,282
Amount of refunds issued:	FY 1994:	$627,601,133		$54,175,108		$156,038,968
	FY 1995:	$661,907,920		$59,335,743		$152,342,766
	FY 1996:	$672,291,924		$77,383,798		**$33,024,769
Number of processing bills issued:	FY 1994:	76,476		11,646		91,286
	FY 1995:	65,651		10,571		91,389
	FY 1996:	67,825		9,774		95,812
Number of audit assessments*** issued:	FY 1994:	23,937		7,874		75,800
	FY 1995:	30,424		8,490		70,364
	FY 1996:	22,116		6,062		73,118

*Collections INCLUDE withholding.

**Changes in statute governing refunds resulted in reduced volume.

***Includes estimates.

Attachment A

Tax Program Statistics

		Gift Tax*	Inheritance/Estate Tax**		Beverage Tax
Revenue collected annually:	FY 1994:	$957,600	$52,245,300		$39,396,000
	FY 1995:	$1,054,500	$39,729,200		$39,585,700
	FY 1996:	$210,900	$45,391,300		$40,004,000
Audit collections:	FY 1994:	$881,200	$2,262,200		$46,000
	FY 1995:	$931,900	$5,620,200		$45,900
	FY 1996:	$207,100	$1,029,100		$99,000
Delinquent collections:	FY 1994:	$4,100	$81,800		-0-
	FY 1995:	$57,000	$102,100		-0-
	FY 1996:	-0-	$82,600		-0-
Number of new registrants	FY 1994:	Not applicable.	Not applicable.		640
	FY 1995:				375
	FY 1996:				326
Number of active registrations:	FY 1994:	Not applicable.	Not applicable		4,156
	FY 1995:				4,066
	FY 1996:				4,196
Number of returns filed:			Inheritance	Estate	
	FY 1994:	374	1675	1,155	6,261
	FY 1995:	75	1076	1,262	6,700
	FY 1996:	39	771	1,272	6,937
Number of returns filed electronically:	FY 1994:	-0-	-0-		-0-
	FY 1995:	-0-	-0-		-0-
	FY 1996:	-0-	-0-		-0-
Number of EFT payments made:	FY 1994:	-0-	-0-		-0-
	FY 1995:	-0-	-0-		-0-
	FY 1996:	-0-	-0-		-0-
Number of refunds issued:	FY 1994:	3	296		96
	FY 1995:	9	219		102
	FY 1996:	9	171		101
Amount of refunds issued:	FY 1994:	$1,216	$934,794		$21,116
	FY 1995:	$7,939	$1,317,594		$68,149
	FY 1996:	$8,182	$890,487		$36,283
Number of processing bills issued:	FY 1994:	Not applicable.	Not applicable.		Not applicable.
	FY 1995:				
	FY 1996:				
Number of audit assessments issued:	FY 1994:	31	456		506
	FY 1995:	8	505		595
	FY 1996:	7	783		491

* Gift tax abolished in 1992.

**Inheritance tax replaced by estate tax in 1992.

Tax Program Statistics

		Cigarette Tax	Tobacco Products Tax	Temporary Recycling Surcharge
Revenue collected annually:	FY 1994: FY 1995: FY 1996:	$173,845,800 $176,888,000 $197,965,100	$6,325,400 $6,947,500 $7,385,400	$47,630,100 $40,585,000 $41,578,200
Audit collections:	FY 1994: FY 1995: FY 1996:	$517,000 $1,040,900 $712,900	$47,100 $26,500 $53,700	$648,200 $865,600 $811,900
Delinquent collections:	FY 1994: FY 1995: FY 1996:	$300 $1,500 $6,400	Included in cigarette tax.	$146,800 $243,000 $194,900
Number of new registrants	FY 1994: FY 1995: FY 1996:	370 201 201	Included in cigarette tax.	Not applicable.
Number of active registrations:	FY 1994: FY 1995: FY 1996:	1,243 1,254 1,358	Included in cigarette tax.	Not applicable.
Number of returns filed:	FY 1994: FY 1995: FY 1996:	Not applicable.	Not applicable.	27,962 25,842 30,649
Number of returns filed electronically:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	-0- -0- -0-	-0- -0- -0-
Number of EFT payments made:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	-0- -0- -0-	-0- -0- -0-
Number of refunds issued:	FY 1994: FY 1995: FY 1996:	529 507 507	48 46 46	3,107 377 602
Amount of refunds issued:	FY 1994: FY 1995: FY 1996:	$2,279,947 $1,898,753 $2,396,123	$87,127 $40,656 $36,889	$777,123 $89,713 $234,936
Number of processing bills issued:	FY 1994: FY 1995: FY 1996:	Not applicable.	Not applicable.	Not available.
Number of audit assessments issued:	FY 1994: FY 1995: FY 1996:	198 242 267	98 100 118	Not available.

Tax Program Statistics

		Motor Fuel Taxes*	Exposition Center Taxes	County Sales Tax
Revenue collected annually:	FY 1994: FY 1995: FY 1996:	$639,464,200 $656,524,900 $679,124,100	-0- $2,271,151 $8,834,860	$133,454,593 $142,619,132 $150,501,144
Audit collections:	FY 1994: FY 1995: FY 1996:	$3,500,300 $4,678,400 $2,086,600	-0- -0- $400	Included in sales tax.
Delinquent collections:	FY 1994: FY 1995: FY 1996:	$1,197,500 $244,700 $140,300	-0- -0- $54,300	Included in sales tax.
Number of new registrants	FY 1994: FY 1995: FY 1996:	816 106 68	-0- 3,501 1,077	Not separately registered.
Number of active registrations:	FY 1994: FY 1995: FY 1996:	690 762 746	-0- 3,356 3,969	Not separately registered.
Number of returns filed:	FY 1994: FY 1995: FY 1996:	26,842 4,965 4,815	-0- 2,959 13,985	Filed on sales tax returns.
Number of returns filed electronically:	FY 1994: FY 1995: FY 1996:	-0- -0- 184	-0- -0- -0-	-0- -0- -0-
Number of EFT payments made:	FY 1994: FY 1995: FY 1996:	157 1,146 1,340	-0- -0- -0-	-0- -0- -0-
Number of refunds issued:	FY 1994: FY 1995: FY 1996:	14,402 30,159 16,163	-0- 2 158	Included in sales tax.
Amount of refunds issued:	FY 1994: FY 1995: FY 1996:	$8,327,009 $19,640.104 $20,281,814	-0- $2,203,018 $9,563,683	Included in sales tax.
Number of processing bills issued:	FY 1994: FY 1995: FY 1996:	Not applicable.	-0- -0- 1,464	Billed with sales tax.
Number of audit assessments issued:	FY 1994: FY 1995: FY 1996:	2,040 798 370	-0- -0- 3,556	Billed with sales tax.

*Law change in 1994 moved taxation to the terminal level.

Tax Program Statistics

		Stadium Sales Tax	Withholding Tax*	
Revenue collected annually:	FY 1994: FY 1995: FY 1996:	-0- -0- $6,371,993	$3,307,456,441 $3,756,600,232 $3,757,973,182	
Audit collections:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	$21,500 $25300 $3,700	
Delinquent collections:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	$10562,000 $11,313,500 $10,834,600	
Number of new registrants	FY 1994: FY 1995: FY 1996:	Not separately registered.	16,967 17,024 17,252	
Number of active registrations:	FY 1994: FY 1995: FY 1996:	Not separately registered.	138,784 139,949 143,003	
Number of returns filed:	FY 1994: FY 1995: FY 1996:	-0- -0- 105,509	1,373,400 1,405,700 1,486,400	
Number of returns filed electronically:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	-0- -0- -0-	
Number of EFT payments made:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	2,219 8,350 14,813	
Number of refunds issued:	FY 1994: FY 1995: FY 1996:	-0- -0- 43	6,251 8,049 7,911	
Amount of refunds issued:	FY 1994: FY 1995: FY 1996:	-0- -0- $5,352,363	$3,123,414 $4,557,799 $19,419,379	
Number of processing bills issued:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	50,409 52,625 51,347	
Number of audit assessments** issued:	FY 1994: FY 1995: FY 1996:	-0- -0- -0-	49,495 50,993 52,466	

*Withholding revenue also included in individual income tax revenue

**Includes estimates.